Quarterly International Trade Report

February 2005
Public Distribution

Wheat

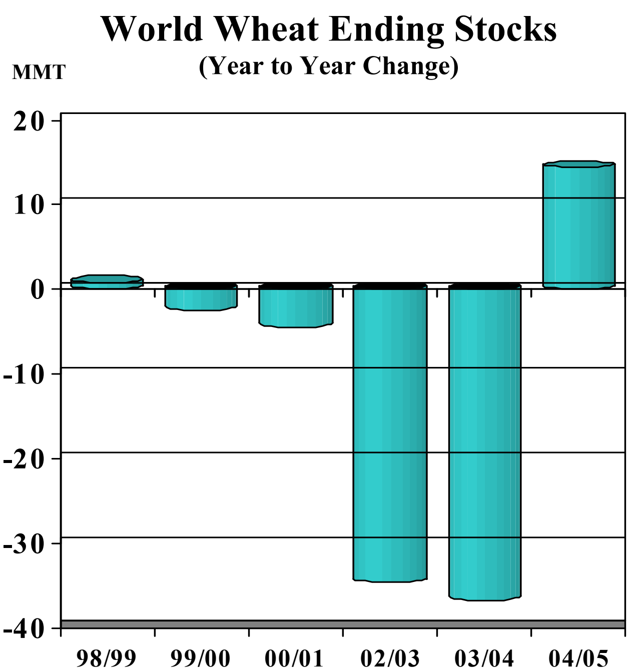
World Situation and Outlook

SUMMARY POINTS
• Global wheat production soars to record level, with subsequent stock rebuilding
• EU restarts export subsidies
• Argentine exports strengthen to more diverse markets
• U.S. all-wheat exports fall, but HRS exports expected at 8-year high

Global PS&D: Global wheat production jumped this year to a new record after six straight years of decline. The nearly 70 million ton increase is the largest year-to-year in history. This was primarily due to excellent harvests throughout Europe and the Former Soviet Union, as well as good North African crops. The more abundant supply has pushed down prices from last year's levels. Although world consumption has also reached record levels with higher feed use in Europe as well as steady population growth, it will nevertheless be outstripped by global production. Global stocks are thus rebuilding for the first time in 5 years, a major portion of which is expected in the European Union where intervention stocks have begun to swell.

Global Trade: Total world trade has grown slightly this year, and import demand has shifted substantially from Europe to Asia as China has returned as the world's largest market and Pakistan has also stepped up imports to a 6-year high. Export competition has intensified due to larger crops in many of the world's major supplying countries. EU-25 and Black Sea exports have recovered from last year's lows and are concentrated in key Mediterranean markets. With record production and the prospect of a huge stock build-up, the European Commission has resumed wheat export subsidies for the first time in 18 months. The effect of this decision on trade over the next few months is likely to be limited as the subsidy levels granted have been fairly low so far and import buying typically fades during the next few months. However, if the EU grants higher subsidies, the intensified competition could drive prices down to North African and Middle Eastern markets, and perhaps stimulate additional demand.

Argentine exports have soared this year with large old-crop shipments and robust sales from the new, near-record harvest. Furthermore, with reduced import demand from Brazil, Argentina has sold to a wide range of markets in Africa, the Middle East, and Asia. Sales to Egypt, a market from which Argentina had been largely absent for a number of years, have nearly surpassed 1.5 million tons. Despite lower production, Australian exports have also grown this year due to robust old-crop shipments, large carryin stocks, and strong demand from Asian markets.



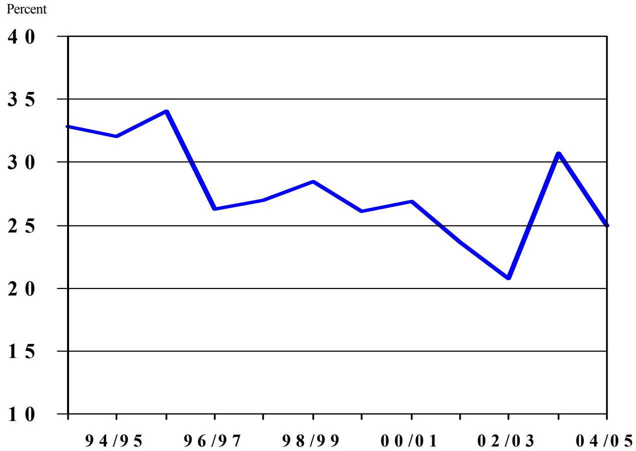
Note: 04/05 includes exports and outstanding sales to date

U.S. Situation and Outlook

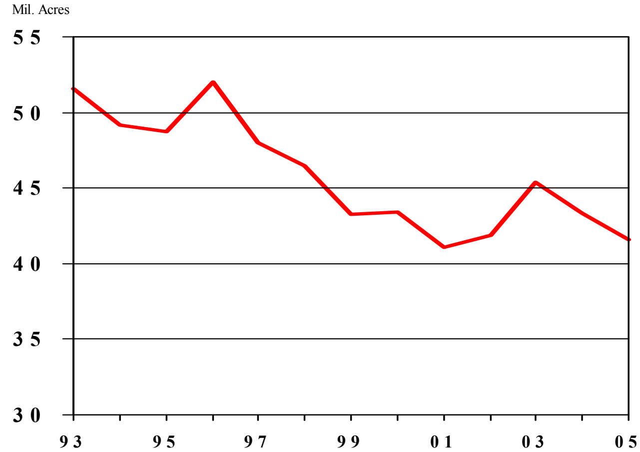
Lower production, coupled with stronger global competition, has cut exports an estimated 5 million tons, mostly of Hard Red Winter wheat. In fact, spring wheat exports are booming with Hard Red Spring exports expected to reach an 8-year high. Quality problems in Canada's spring wheat crop due to untimely rains and a delayed harvest have enabled the United States to regain market share in key importing countries such as the Philippines. China's return as a major importer of this class (nearly 1 million tons this year) has also buoyed exports.

For 05/06, U.S. production could decline again as winter wheat planted acres are down 4 percent. This decline is most pronounced in Soft Red Winter, where acres are down nearly 20 percent to the lowest level in 25 years.

U.S. Global Market Share



U.S. Winter Wheat Seedings



Source: NASS winter wheat seedings

WORLD WHEAT SITUATION					
	2002/03	2003/04	2004/05	Year to Year Change 03/04 to 04/05	
	MMT	MMT	MMT	MMT	Percent
Production	567	553	622	+69	+13%
Consumption	601	589	608	+18	+3%
Trade (Jul/Jun)	110	105	108	+3	+3%
Ending Stocks	168	131	145	+14	+11%
U.S. WHEAT SITUATION					
Production	43.7	63.8	58.7	-5.1	-8%
Consumption	30.5	32.5	32.3	-0.2	-1%
Exports (Jun/May)	23.2	31.5	27.9	-3.6	-11%
Ending Stocks	13.4	14.9	15.2	+0.6	+2%

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